THE ACQUISITION OF FLORIDA GAS COMPANY
BY THE CONTINENTAL GROUP

by

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PROFESSIONAL REPORT
Prepared for B.A. 398 Under the Supervision of
Dr. Floyd S. Brandt in Partial Fulfillment
of the Requirements

For the Degree of
MASTER OF BUSINESS ADMINISTRATION

THE UNIVERSITY OF TEXAS AT AUSTIN
Graduate School of Business
May 1981

ABSTRACT

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On August 28, 1979, the shareholders of Florida Gas Company approved an Agreement and Plan of Merger with The Continental Group, Inc. The acquisition of Florida Gas was the last step in a decade-long strategy initiated by Continental in the early 1970s.

The Continental Group, Inc. began as Continental Can Company in 1904 with a small can plant in New York. Continental established its leadership in the canning industry and began to diversify into other forms of packaging. However, the company was still a concentrated canning concern in 1970, with more than 70 percent of earnings contributed by the can manufacturing operations and over half the company's total assets employed by this function.

Today Continental is a diversified packaging company with substantial business interests in energy, natural

resources, and financial services. Continental's operations are worldwide and are conducted through five operating groups: Continental Can Company, Continental Diversified Businesses, Continental Forest Industries, Continental Financial Services, and Continental Resources Company.

The dramatic changes in the composition of Continental's contributions to earnings and assets and the much more diversified nature of its operations are the results of a strategy that was initiated in the early years of the seventies. The strategy was designed and implemented with the goal of positioning the company for the eighties to take advantage of new opportunities for growth and to adjust to a maturing domestic can market by diversifying and achieving more balanced operations.

Prior to the acquisition by Continental, Florida Gas Company was a Florida corporation engaged in natural gas transmission, oil and gas exploration and development, hydrocarbons extraction, and real estate development. These operations were conducted by four wholly-owned subsidiaries.

Early rumors of the possible acquisition of Florida Gas Company began to surface in March 1979, and on May 22, 1979, Florida Gas and Continental announced an agreement in principle. Subsequent to the approval of the Boards of Directors of both companies, the shareholders of Florida Gas approved the merger on August 28, 1979. The terms of the agreement provided that Florida Gas Company would be renamed Continental Resources Company and operate as a subsidiary of The Continental Group. The transaction was valued at $350 million, and each shareholder of Florida Gas received a $50 package of cash and Continental preferred stock per share of Florida Gas Common Stock.

Substantial growth in the operations of Continental Resources Company, especially in oil and gas exploration and development, contributed to the earnings of The Continental Group in 1980 and were expected to be important in the future growth and profitability of Continental Group.

The acquisition was concluded to have been a very advantageous investment for Continental Group as the copany prepared to meet the challenges of the eighties. Continental had successfully implemented its decade-long strategy, and the acquisition of Florida Gas Company played a major role in providing diversification and growth potential for the New Continental--a company vastly different from Continental Can Company of 1970.

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INTRODUCTION

On August 28, 1979, the shareholders of Florida Gas Company approved an Agreement and Plan of Merger with The Continental Group, Inc. The shareholders' vote was the last step in a strategy that was initiated by Continental in the early 1970s. As a result of the corporate planning by Continental's directors and officers, the decade of the seventies was one of dramatic changes in the profile of the company. A diversification strategy designed to take better advantage of the company's financial strengths and its major resources was culminated in the acquisition of Florida Gas Company.

Preview of the Study

The purpose of this professional report is to analyze the acquisition of Florida Gas Company in the context of its role in the decade-long strategy of The Continental Group. The paper begins with a study of The Continental Group in terms of the nature of its businesses, its historical background, and the more recent developments which led to the acquisition of Florida Gas Company. Then, Florida Gas Comapny is examined, focusing on the promising future that made it attractive to Continental as an acquisition candidate. Following the chapter on

The Continental Group and Florida Gas Company as distinct corporate entities is a chronological review of the acquisition itself, from the first rumors of "suitors" of Florida Gas to the final vote of approval of the agreement with Continental. The last chapter is a post-acquisition analysis, which seeks to draw conclusions on the implications of the acquisition for employees and stockholders of Florida Gas and on the success of Continental in shaping the "New Continental."

Corporate Names

"The Continental Group, Inc." is the exact name of the acquiring corporation as specified in its chapter. Throughout this paper, "Continental Group," or more simply, "Continental," are used instead of the full legal name without distinction to refer to The Continental Group, Inc. and its subsidiaries. Similarly, "Florida Gas" is used interchangeably with "Florida Gas Company" to refer to the acquired company.

Florida Gas Company was renamed "Continental Resources Company" after the acquisition took place, and more complete accounts of the post-acquisition name and organizational changes are included in later sections. Figure 1 and 2 illustrate The pre-acquisition organizationtional structure of the Continental Group and Florida Gas Company and their subsidiaries, respectively.

FIGURE 1

THE CONTINENTAL GROUP, INC.
ORGANIZATIONAL STRUCTURE

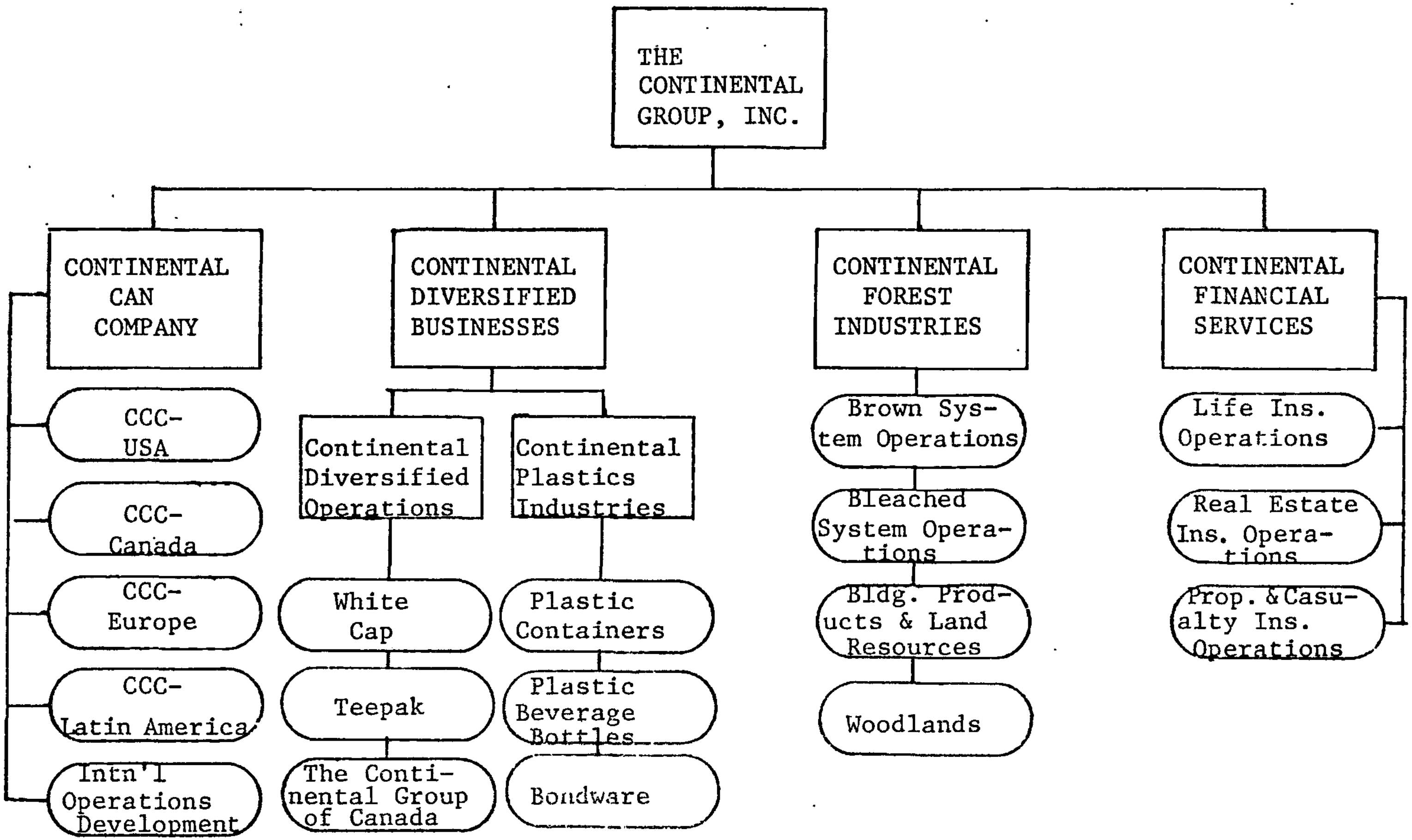
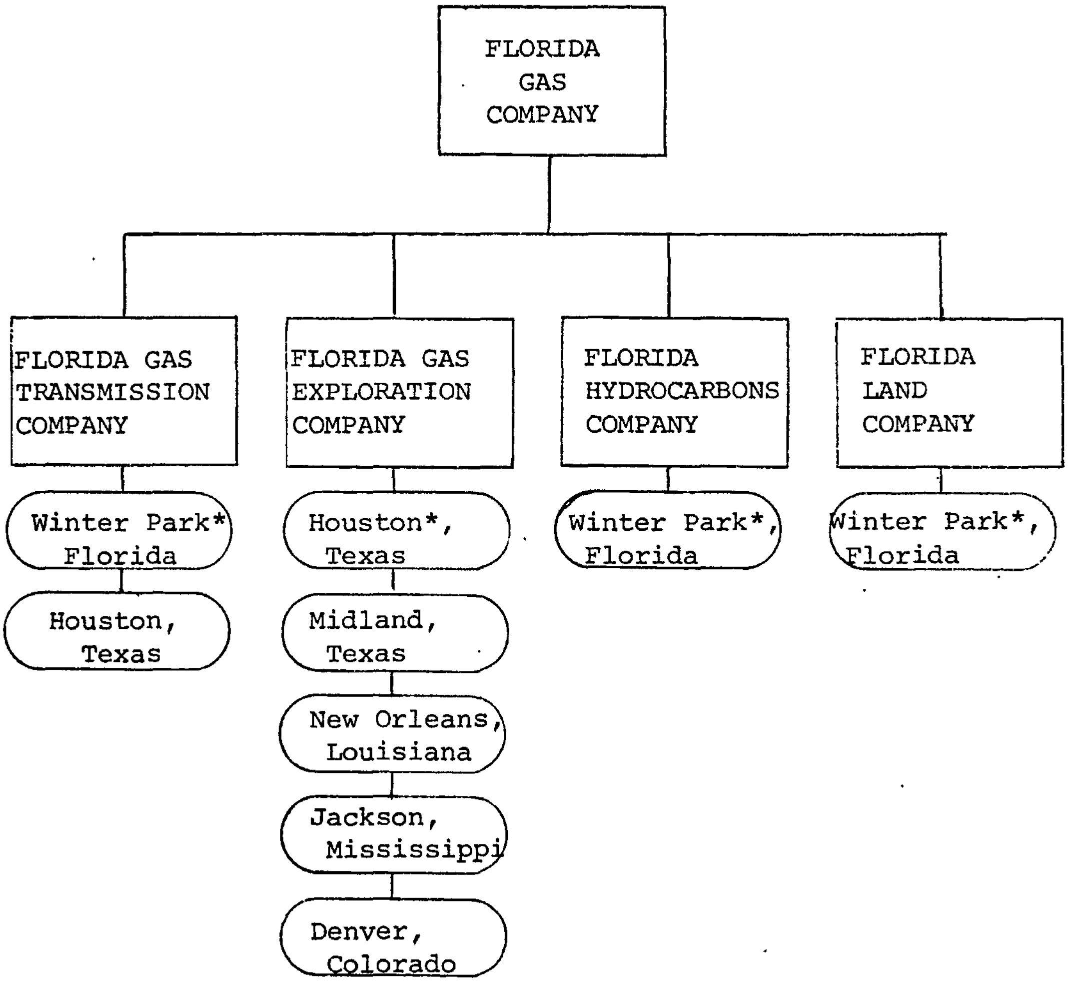


FIGURE 2

FLORIDA GAS COMPANY

ORGANIZATIONAL STRUCTURE



*Home Office

"Merger" vs "Acquisition"

The terms "merger" and "acquisition" and the distinctions between them are a common source of misunderstanding, a condition which needs clarification at the onset of this study.

In a strict definitional sense, merger is defined as the following:[1]

> 1.) A statutory combination of two or more corporations by the transfer of the properties to one surviving corporation
>
> 2.) Any combination of two or more business enterprises into a single enterprise

There is no dictionary definition of acquisition that has special meaning in the context of business.

From a legal perspective, business combinations are classified mergers, acquisitions, or consolidations, focusing upon the corporate structures involved. If only one corporate entity remains from the original group of companies, the union is termed a merger, coinciding closely with the dictionary definition. If a new corporation is formed to acquire the net assets of the others, the combination is termed a consolidation; the term acquisition is applied to a combination in which one firm exchanges its ownership securities for the ownership

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[1]Random House Dictionary of the English Language, rev. ed. (1973), s.v. "merger."

securities of another firm, and both continue their legal existence in a parent-subsidiary relationship.[2]

The following notation illustrates the use of the terms more clearly:

A + B = C	MERGER
A + B = C	CONSOLIDATION
A + B = A(Parent) + B(Sub)	ACQUISITION

Contemporary usage of the terms frequently disregards these distinctions, however, and they are used interchangeably in normal business discourse unless the objective is to concentrate on the legal distinctions.

The business combination involving Florida Gas and Continental was technically an acquisition, but the terms "merger" and "acquisition" were used interchangeably in company reports and published articles and will be used without distinction in this paper.

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[2] Charles Griffin, Thomas Williams, and Kermit Larson, Advanced Accounting (Homewood, Illinois: Richard D. Irwin, Inc., 1977), p. 13.

CHAPTER II

THE CONTINENTAL GROUP

Continental was incorporated under the laws of the State of New York on January 17, 1913, as Continental Can Company, Inc. The company opened its first manufacturing operation in 1904 with $500,000 and a small can plant in Syracuse, New York.

There have been many eventful years since Continental's early beginnings in 1904 that shaped the business of the company and contributed to its growth. In 1930, Continental entered foreign markets and signed its first licensing agreement with a foreign manufacturer. In 1935, the company produced a cap-sealed can for beer, and later a ring-pull for beer and soft-drink cans--both of which revolutionized beverage packaging. The decade of the thirties also saw Continental make its first commitment to the forest products industry.

The next several decades were equally eventful for Continental as the company strengthened its already established leadership in canning and began to explore other forms of packaging. In 1942, the company entered the fibre drum business, and in 1953, it diversified into the manufacture of plastic containers. In 1956, the company made a major commitment to the paper industry by merging with the Robert Gair Company, and in 1966, extensive research in the three-piece beverage can market paid off as the technology became operational. The company's history from its inception to 1969 was filled with moves such as these to accelerate its growth and maintain its competitive edge in the packaging industry.

Only a decade ago, the name Continental Can Company was suitable to the company's operations, reflecting its primary line of business. More than 70 percent of earnings were contributed by the can manufacturing operation, and more than half of the company's total assets were devoted to this function. Continental's traditional expertise is in packaging, and the past success and growth of the company were built on that expertise.

The New Continental

Today Continental is the world's leading manufacturer of diversified packaging products, but it has broadened its base significantly, with substantial business interests in energy, natural resources, and financial services. The name was changed in April 1976 to The Continental Group, Inc. to more appropriately recognize the new profile of the company. The company's operations are international in scope and employ approximately 58,000 people worldwide.[1] Continental's business is divided into five major segment:[2] Continental Can Company, Continental Diversified Businesses, Continental Forest Industries, Continental Financial Services, and Continental Resources Company.

Continental Can Company

From Continental's inception as a single can plant in Syracuse, New York, in 1904, Continental Can Company ("CCC") has grown to sixty domestic manufacturing facilities and fifty-seven plants in other countries, which are operated or managed through Continental's subsidiaries and affiliates.[3] CCC manages its worldwide business through five strategic business units: USA, Canada, Europe, Latin America, and International Operations Development.

Continental Can Company manufactures and sells a diversified line of steel, aluminum, and composite containers for over fifty uses in three principal markets: beer and soft drinks, food products, and general packaging. Its products include drawn and wall-ironed cans,

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[1] The Continental Group, Inc. Annual Report, 1980 p. 1.

[2] In 1980, Continental combined Continental Can Company and Continental Diversified Business for the purpose of segment reporting under "Packaging."

[3] The Continental Group, Inc. Form 10-K Report, 1980, p. 2.

welded cans, conventional soldered cans, and a wide variety of easy-opening ends that are used on containers for beverages, foods, and household products.

In addition to operating manufacturing facilities worldwide and a number of sale and distribution centers, CCC also operates an Equipment Division. This division consists of five machine shops, which manufacture a significant portion of CCC's can-making and can-closing machinery. The equipment is internally developed by a special engineering group and is available to customers, licensees, and others for sale or lease. A customer equipment services group is operated by CCC to provide equipment-related service.

Continental Diversified Businesses

Continental Diversified Businesses evolved as the original Continental Can Company began to manufacture containers other than metal cans. This segment of Continental's business was known as Diversified Products, a domestic operating group of Continental Can Company, prior to 1976. Continental Diversified Businesses is now responsible for its products internationally and is further divided into Continental Diversified Operations ("CDO") and Continental Plastics ("CPI"). Together CDO and CPI employ approximately 15 percent of Continental Group's total assets.[4]

Continental Diversified Operations manages three separate, related businesses: White Cap, Teepak, and The Continental Group of Canada, Ltd.

In the White Cap division, a substantial part of the sales and earning is attributed to a child-resistant safety cap for containers for household cleaners, lighter fluid, and pharmaceuticals. The closure, under the trademark of Pop-Lok, is a plastic cap that utilizes a distinctive and convenient press-to-open tab. The other major product of White Cap is a vacuum-type metal closure for glass containers to package products such as baby food, catsup, and similar products. The two most popular of these metal closures are Twist-Off™ and Press-Twist™, both of which are international sales leaders. White Cap's achievements in these and other product innovations have earned it the reputation as a technological leader in its field.

Teepak, acquired by Continental in 1979, is a leading supplier of casings to the processed meat industries in more than fifty countries. Teepak's major products are Wienie-Pak™, a casing made from regenerated cellulose for the production of skinless franks,

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[4] The Continental Group, Inc. Annual Report, 1979 p. 20.

and Coria™, an edible collagen casing made from the corium layer of cattle hides for fresh sausage and processed meats.

Teepak operates three plants: two plants in the United States--one in Sandy Run, South Carolina and the other in Danville, Illinois; and a third plant in Lommel, Belgium. After Continental Group acquired Teepak in 1970, it spent millions of dollars in developing Coria™ and in building the $37 million facility in Sandy Run, South Carolina to produce it.

The company is currently negotiating to sell the domestic business of Teepak (and retain the plant in Belgium) to a U.S. subsidiary of Hoechst A.G. for about $100 million, subject to regulatory clearance.[5] In consummated, the transaction is expected to result in a gain to Continental.

The Continental Group of Canada, Ltd. is a wholly-owned Canadian subsidiary which manufactures and sells metal cans, boxboard, folding cartons, paper containers, cups and other paper products, metal closures, and automotive parts. Management responsibility is through CDO, although its sales and earnings are allocated to CCC, CFI, or diversified Businesses, depending on the product.

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[5]"Continental Group Will Sell Some Assets as It Seeks a Larger Role in Energy Field," Wall Street Journal, 13 April 1981, p. 8.

Continental Group has recently taken moves to dispose of part of its Canadian interests. In March 1981, the company agreed to sell its boxboard mills and folding-carton plants to a Canadian concern, Belkin Packaging Ltd, for the equivalent of $50 million in U.S. Currency.[6] In January 1980, Continental Group of Canada sold its four corrugated plants in Ontario and Quebec to a subsidiary of MacMillan Blocdel, Ltd. for approximately $20 million in cash and notes.[7]

The second of Continental Diversified Businesses' independent product companies, Continental Plastics Industries, also consists primarily of three related businesses: Plastic Containers, Plastic Beverage Bottles, and Bondware. CPI also includes an International Operations Division, which is responsible for six plastics manufacturing locations in Europe, two flexible-packaging subsidiaries in Latin America, and a new 25 percent interest in a Saudi Arabian company that manufactures foam cups.

The Plastic Containers Division of CPI is responsible for Continental's position as the leading U.S. manufacturer of plastic containers for food, household chemicals, and industrial products. Plastic Containers now

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[6] Ibid.

[7] The Continental Group, Inc. Form 10-K Report, 1980 p. 4.

operates fourteen manufacturing facilities, where the containers are made by blow-molding high-density polyethylene, polyvinyl chloride, and oriented and non-oriented polypropylene. These containers serve a variety of end-use markets, an example of which is the now-familiar plastic container for laundry detergents.

The Plastic Beverage Bottles Division has been a focus of Continental's research and development efforts in the seventies in an attempt to develop a polyester beverage bottle utilizing a petroleum-based resin. Their success in developing the two-liter polyester beverage bottle has resulted in strong sales since it went into production in November 1977. There are currently ten blow-molding and five injection-molding facilities in operation, with the capacity to produce more than 500 million two-liter bottles annually.

Continental's potential to exploit the market for this product is tremendous. It secured a significant portion of the market with the early introduction of its new beverage bottle and has already established long-term commitments with many major bottlers. Demand for the two-liter plastic soft-drink containers in the U.S. market alone is expected to exceed 2.3 billion units by 1982,[8]

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[8]The Continental Group, Inc. Annual Report, 1979, p. 20.

and Continental is in a good position to take advantage of this potentially lucrative market.

The last of the divisions in CPI is the Bondware Division. This division manufactures and markets paper cups, tubs, and plates, primarily for use by the fast-food chains and other institutional markets. Bondware had previously manufactured foam plastic cups under the name of Crest China-Therm™, but increases in the cost of styrene monomer, a petroleum by-product, caused the business to be phased out in 1979.

Continental Forest Industries

Formerly an operating group of Continental Can Company, Inc., Continental Forest Industries ("CFI") employs approximately 28 percent of Continental's total assets.[9] CFI operates four domestic mills: a bleached paperboard mill located in Augusta, Georgia; and three unbleached kraft paper and paperboard mills located in Hodge, Louisiana; Hopewell, Virginia; and Port Wentworth, Georgia. These mills and the seven sawmills that Continental owns and operates are partially supplied by CFI's domestic timberland base of 1.5 million acres. In addition, Continental has developed the capability to manage other resources that are associated with the land.

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[9]Ibid., p. 16.

The geographic location of the properties of Continental Forest Industries is shown in Figure 3.

CFI's business is conducted through four operating units: Brown System Operations, Bleached System Operations, Building Products and Land Resources, and Woodlands.

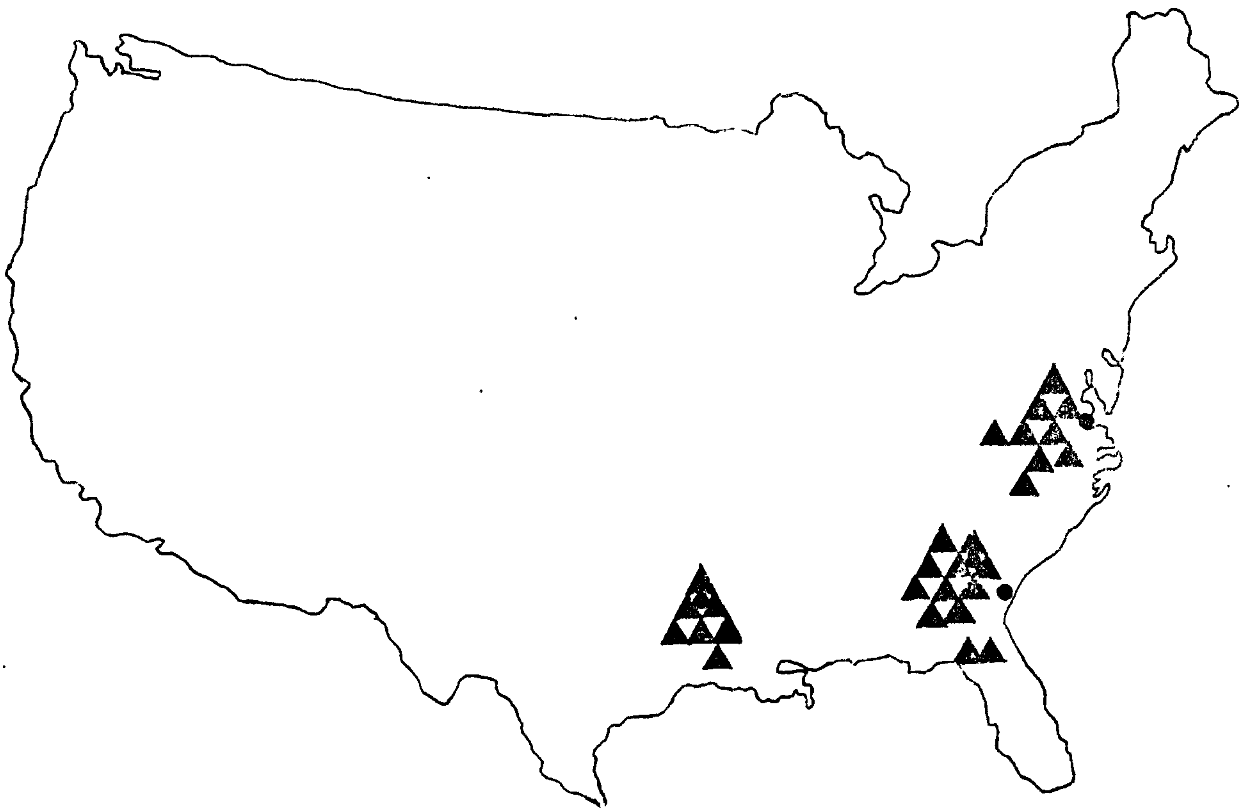
Brown System Operations is responsible for the three mills that manufacture unbleached kraft paper and containerboard. Approximately 35 percent of this output is sold, while the remaining 65 percent is further refined. Brown System converting operations manufacture and sell these finished products, which are primarily corrugated containers, fibre drums, retail and industrial bags, and polyethylene bags and films.

Bleached Systems Operations manages the fourth mill, located in Augusta, Georgia, and manufactures bleached board for sale to both CFI's converting operations and to other converters. The coverting operation produces folding cartons and disposable paper plates and cups. The folding cartons are used primarily by the food and tobacco industries, while the paper plates and cups are packaged for consumer use.

The Building Products and Land Resources Division is responsible for the operation of Continental's seven sawmills, located in the southern United States. The sawmills produce rough and finished products, but these

FIGURE 3

THE LOCATION OF CFI PRODUCTS



▲ Timberland Holdings
● Pulp/Paper Mills

SOURCE: <u>THE CONTINENTAL GROUP, INC. ANNUAL REPORT</u>, 1980, p. 13.

products do not constitute a substantial part of CFI's business. The division also analyzes opportunities for alternative uses of CFI's land base, such as real estate and mineral recovery.

The Woodlands Division manages CFI's timberlands, supplying approximately one-third of the raw material needs of its paper mills and sawmills. The timberlands are located in seven souther states. More than 800,000 acres were in pine plantations at the end of 1980,[10] which is slightly more than one-half of the total acreage.

Since the organizational realignment in 1975 into three product-oriented operating units, each with world-wide responsibilities,[11] CFI has also had management responsibility for related investments in other countries. Continental has a recently acquired 49 percent interest in Fibro Tambor S.A. de C.V., Mexico's leading fibre drum company, and Continental also owns a 33 percent equity interest in Braskraft S.A. Florestal e Industrial, a Brazilian corporation which owns approximately 200,000 acres of land in Brazil. At December 31, 1980, this investment was valued at $14 million.[12] CFI also has

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[10] The Continental Group, Inc. 10-K Report, 1980, p.6.

[11] This realignment will be discussed in more detail in the section "Implementing the Strategy."

[12] The Continental Group, Inc. Form 10-K Report, 1980, p. 6.

responsibility for a paper mill and corrugated container plants located in West Germany, owned by Schmalbach-Lubeca GmbH, a 99.2 percent-owned subsidiary of Continental.[13]

Continental Financial Services

Continental Financial Services ("CFS") conducts a number of services, the most significant of which are its insurance operations. However, CFS is also involved in real estate development, rental and brokerage services, and computer software design, sales, and service.

Continental Financial Services represents the newest business segment of the Continental Group, excluding Continental Resources. Continental acquired its interest in the insurance industry in 1977 by merging Richmond Corporation into The Continental Group. CFS was subsequently formed in 1978 to manage the broadening activities of Richmond's insurance and financial services operations.

Richmond's business had been conducted primarily in the fields of life insurance, title insurance, accident and health insurance, and casualty insurance. Each group was under the management of one of Richmond's affiliates: The Life Insurance Company of Virginia, Lawyers

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[13] The Continental Group, Inc. Form 10-K Report 1979, p. 27.

Title Insurance Corporation, and Western Employers Insurance.

The operations of Continental Financial Services are conducted in substantially the same manner as prior to the merger, although Continental has further expanded the business and continued an acquisition program. As CFS currently exists, the operations are divided into three distinct operations: Life Insurance Operations, Real Estate Insurance Operations, and Property and Casualty Insurance Operations.

Life Insurance Operations are conducted through The Life Insurance Company of Virginia, now a subsidiary of CFS. Life of Virginia offers and underwrites a wide variety of non-participating individual and group life insurance policies and annuities, as well as accident and health insurance. It has its own sales organization that operates in twenty-nine states and the District of Columbia where the company is licensed to do business; however, its premium revenues are principally from policies sold in the southeastern United States.

Real Estate Insurance Operations underwrites and markets policies and contracts through its own sales force and through independent agents and brokers. The salesmen represent three companies that comprise Real Estate Insurance Operations: Lawyers Title Insurance

Corporation (which was originally a subsidiary of Richmond), and California-World Financial Corporation and Investors Mortgage Insurance Company, both of which were subsequently acquired by Continental.

Lawyers Title Insurance is licensed in forty-nine states to sell real estate and title insurance. Lawyers Title is the nation's third largest title insurer, with 191 branches and offices and 1,076 agencies.[14] Its business is directly dependent upon activity in the commercial and residential real estate markets, which are in turn affected by fluctuations in mortgage rates and money market interest rates.

California-World Financial Corporation and Investors Mortgage are also included in Real Estate Operations, and they were both acquired after Continental's initial entry into the insurance industry. California-World was acquired in 1979; it serves eight California counties, which constitute one of the country's largest and fastest growing title insurance markets. In December 1980, the planned acquisition of Investors Mortgage was announced, to become effective January 1, 1981; the transaction was reported to take place for $86 million in cash.[15] Investors Mortgage underwrites home mortgage

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[14]Ibid. p. 25.

[15]The Continental Group, Inc. Annual Report, 1980 p. 29.

guaranty insurance to residential mortgage lenders, which serves to lower downpayment requirements and increase home affordability.

Property and Casualty Insurance Operations are conducted through Richmond's original subsidiaries: Western Employers Insurance Company, and a smaller company, Insurance Management Corporation. Western's principal business is underwriting workers' compensation in California, while Insurance Management provides general insurance brokerage services, self-insurance financing, premium financing, and other miscellaneous, non-standard services.

Continental Resources Company

Continental Resources Company ("CRC") is The Continental Group's newest product company. Certain energy-related investments previously owned by Continental are now owned and managed by CRC, but the company is essentially Florida Gas Company, renamed and integrated into The Continental Group.

Chapter III is a study of Florida Gas Company as a separate business before the acquisition took place, examining the nature of its businesses and the attributes that made it attractive to Continental as an acquisition target. A discussion of Continental Resources Company as a subsidiary of Continental Group is postponed until Chapter V in an analysis of the post-acquisition company, the "New Continental."

Before proceeding to the study of Florida Gas, the new profile of Continental in contrast to Continental Can Company, Inc. of 1970 requires explanation. The following section reviews the events that shaped the new profile of Continental in the decade of the seventies.

Shaping the Strategy

The Continental Group, Inc. of 1980 is a stark contrast to the concentrated packaging company of 1969; even the name is different. (See Figure 4 for a comparison of the composition of Continental.) Such profound changes could only have been effected in a single decade by deliberate design. In the case of Continental, some revolutionary shifts in management's outlook occurred in 1970 that resulted in a decade-long strategy that was to expand the business to emphasize more than its fundamental foothold in packaging.

A superficial review of the situation in 1969 gives no indication of a reason for management's change in outlook. Continental controlled about 30 percent of the can-making market and claimed to be the world's leading packaging company. Sales were approaching the $2 billion mark, and earnings per share had been steadily improving. Dividend payments were also increasing, in

FIGURE 4

Continental Can (1969) vs. Continental Group (1980)

Operating Earnings Contribution

1969	Can Company 70%	Forest 22%	Div. 8%

1980	Can Company 27%	Energy 20%	Forest 19%	Diversified 18%	Ins. 16%

Total Assets

1969	Can Company 56%	Forest 31%	Div. 13%

1980	Can Company 26%	Forest 24%	Energy 17%	Ins. 13%	Div. 12%	Cor-po-rate* 8%

*Composed primarily of cash and short-term investments keeping with the steady trend since 1942 of paying dividends equal to or exceeding those of the previous year.[16] An analysis of the financial statements revealed financial stability, with no apparent obstacles to continued growth.

The Economic Outlook

The sensitivity of Continental's top management to a changing environment prevented the favorable picture painted by 1969 operating results from being short-lived. The economic horizon in 1970 presented some viable threats to Continental's future growth as a concentrated packaging concern.

The dismal projection for annual growth in the domestic market for containers was less than 3 percent,[17] as the industry was confronted with some challenging obstacles:[18]

- Beverage can operations turning to self-manufacture
- Waning growth in food and aerosol markets

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[16] The Continental Group, Inc. Annual Report, 1978 1978, p. 3.

[17] Thomas C. Hayes, "Recruiting Via Acquisitions," New York Times, 30 November 1979, p. D2.

[18] The Continental Group, Inc. Annual Report, 1979 p. 8.

- The continuing cyclicality of paper businesses
- Increasing concern in the U.S. for environmental matters with resulting problems in both paper and metal operations
- Inflation

The outlook for the industry was not altogether discouraging, however. The challenge of new technologies and materials for plastics and other packaging products seemed promising, as did the rising demand for packaging technology in developing countries. Thus, there were opportunities for growth in new markets abroad and in new packaging products, but the domestic container business was maturing and Continental was overwhelmingly dependent on its domestic can markets. As Robert S. Hatfield, Continental's Chairman of the Board, summarized the situation:

> The company was the largest can company in the world but one that was dependent on the U.S. can business for its dynamics, and the can market had matured, meaning that there was more supply than demand.[19]

The Alternatives

Businesses firmly entrenched in a maturing market with the prospect of slow growth typically have several alternatives:

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[19] "Continental Group Inc. Sees '79 Improvements After Diversification," Wall Street Journal, 22 October 1979, p. 5.

- Product diversification
- Market diversification
- Strategic diversification

The first of these alternatives, product diversification, is the route that Continental's major competitor--American Can--chose to take, diversifying heavily into consumer goods. The National Can Corporation and Crown, Cork and Seal Company, two smaller competitors, chose the second alternative, market diversification. They stayed with the container business, investing heavily abroad.

Only Continental's approach to the changes in the industry included a substantial amount of strategic diversification, the alternative that requires the greatest commitment to significant capital investment and long-range planning.

The Strategy

Having faced the economic outlook and having decided to include strategic diversification in its plan of coping with changes in the economy and its major markets, Continental was confronted with the task of shaping a long-range plan.

The change in outlook on Continental's future was focused on the need for strategic diversification, but the company did not limit its planned capital investments to new, high-growth markets. Areas where only modest growth was forecast were included in the investment strategy where significant earnings potential was seen for the efficient producer.

In the words of Robert Hatfield in a letter to the shareholders, the strategy was designed to accomplish these ends:[20]

- Reposition important but maturing packaging businesses for maximum return
- Enter new higher-growth packaging markets at home and abroad
- Redeploy the assets in marginal businesses
- Diversify outside packaging into less cyclical businesses with higher growth rates.

Continental executives realized that such an extensive restructuring of the corporation would necessarily be a gradual process and involve a tremendous amount of capital expenditures and investments. In developing their program of capital investment, they established the following guidelines:[21]

- Build on Continental's competitive advantages in areas where the potential rewards outweigh the risks

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[20] The Continental Group, Inc. Annual Report, 1979 p. 9.

[21] The Continental Group, Inc. Annual Report, 1978, p. 2.

- Maintain a balance within the company between growth businesses, which are at present consumers of capital, and mature businesses, which are contributors of capital
- Continue the current geographical distribution of assets: approximately 70 percent in the U.S. 30 percent international
- Preserve the financial strength and future options of Continental by maintaining an equity-to-debt ratio of not less than two-to-one

In essence, the strategy was one of international expansion, continued technological innovation, modernization, and diversification--within certain constraints to maintain the company's financial stability.

- <u>International expansion</u>--to enable Continental to utilize its packaging expertise in markets with more favorable opportunities for growth
- <u>Technological innovation</u>--to maintain Continental's leadership position and to take advantage of potential demand for new products; to provide a base for growth
- <u>Modernization</u>--to insure optimal returns on existing operations; to make Continental's facilities cost-competitive worldwide
- <u>Diversification</u>--to adapt to the needs of a changing environment; to create a more balanced corporate operation; to position Continental for the 1980s

These goals and constraints that Continental's upper management committed themselves to developed from the need to adapt to a changing environment, but they represented a strategy that was much more than a solution to market changes--they represented a change in the direction of the company over the next decade, a change that was more drastic than any other in the history of Continental Can Company, Inc. The corporate planners hoped to create a new Continental that would be more future-oriented than ever before, providing greater flexibility and balance. The top executives recognized the challenge in successfully completing the implementation of their strategy within the span of the next ten years, buty they dedicated the decade of the seventies to the task.

Implementing the Strategy

In implementing the strategy to shape the profile of the New Continental, the company invested over $3 billion in the eleven-year period from 1979-80.[22] This enormous sum was allocated for international expansion, modernization of existing facilities, and diversification through acquisition. (The expenditures for research and development in promoting technological innovation were in addition to this sum.)

A breakdown of the capital expenditures by product group gives an overview of the distribution. Continental's packaging businesses, which include the Can Company and Diversified Businesses, invested a total of more than

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[22] Thomas N. Troxell, Jr., "Continental Group Boasts Footholds in a Faster Track," Barron's, 14 April 1980, p.61.

one and one-quarter billion dollars--Continental Can with $827 million and Continental Diversified Businesses with $442 million. Continental Forest Industries spent approximately $965 million, and the remainder of the capital expenditures was devoted to the creation of Continental Financial Services and Continental Resources Company. Including the acquistion of Richmond Corporation and the two smaller subsequent acquisitions, more than $400 million was invested in Continental Financial Services. The total investment in Continental Resources is approximately $500 million, including the acquisition of Florida Gas Company in 1979 for $351 million and capital expenditures in 1980.

International Expansion

Continental's response to the projection of overcapacity and slow growth in the domestic packaging markets was so successful in expanding international operations that a change in organizational structure became necessary in 1975. Prior to 1975, the company was divided into three domestic operating groups--Metal Operations, Forest Industries, and Diversified Products[23]--and

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[23]After the name change in 1976, from Continental Can Company, Inc. to The Continental Group, Inc., the three operating groups were redesignated Continental Can Company, Continental Forest Industries, and Continental Diversified Industries (which became Continental Diversified Businesses in 1978 when Continental Plastics was formed.)

International Operations, which was responsible for all foreign investments and foreign operating subsidiaries. Table 1 shows the trends in contribution to earnings by the operating groups from 1971-75.

To better capitalize on international opportunities and to better manage the already achieved growth in international operations, the realignment of Continental's management organization was affected in late 1975. As a result, each of the three domestic operating groups was given international responsibility for its products. Management hoped that this realignment would strengthen strategic planning, to be carried out by product rather than done solely on a geographic basis. In addition, it was hoped that a more optimal allocation of capital, technical, and manpower resources would result from the product-oriented structure.

Continental had first become involved in international operations in 1930 when it signed a licensing agreement with a foreign manufacturer, so taking advantage of worldwide packaging opportunities was not completely unknown to Continental's management. However, since 1969, Continental's business involvement outside the United States has increased substantially. The company now operates in more than 130 foreign countries, including countries in Europe, Latin America, South

TABLE 1

CONTRIBUTIONS TO EARNINGS BY PRINCIPAL OPERATIONS

	1975		1974		1973		1972		1971	
	Amounts in Millions	Per Cent	Amounts in Millions	Per Cent	Amounts in Millions	Per Cent	Amounts in Millions	Per Cent	Amounts in Millions	Per Cent
Metal	$ 45.2	21.6	$ 81.6	33.1	$ 48.5	24.2	$ 57.7	34.4	$ 75.8	47.1
Forest Industries	62.5	29.9	85.3	34.6	60.9	30.4	26.7	15.9	20.7	12.9
Diversified Products	38.0	18.2	37.8	15.3	30.4	15.2	30.1	17.9	30.1	18.7
International Operations	63.5	30.3	42.0	17.0	60.6	30.2	53.2	31.9	36.1	22.4
Discontinued	-	-	-	-	-	-	(.2)	(.1)	(1.7)	(1.1)
TOTAL	$ 209.2	100.0	$ 246.7	100.0	$ 200.4	100.0	$ 167.8	100.0	$ 161.0	100.0

SOURCE: Continental Can Company, Inc. Form 10-K Report, 1975, p. 1.

America, Asia, and the Middle East; and Australia and Canada.

In 1969, Continental obtained majority interests in leading packaging manufacturers in Europe and Mexico, and beginning in 1970, the company began to aggressively expand its business interests outside the United States. In 1970, Teepak, which is one of Continental Diversified Operations' businesses, became a subsidiary of Continental. The acquisition made Continental a factor in the world market for sausage casings, a market with sales of approximately $1.3 billion.[24] In 1975, construction was completed on a new manufacturing facility in Lommel, Belgium, at a cost of $37 million, that was expected to broaden its worldwide business.[25]

Including the Teepak facility in Belgium, approxmately $197 million was spent in 1975 for capital investments, with more than half of this expenditure being made outside the U.S.[26] Several investments were made to increase Continental Can Company's equity in companies serving growing overseas markets. Continental purchased an additional 40 percent interest in Metalurgica

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[24] The Continental Group, Inc. Annual Report, 1976, p. 19.

[25] The Continental Group, Inc. Annual Report, 1975, p. 18.

[26] Ibid, p. 3.

Matarazzo, S.A., Brazil's leading canmaker, and an additional 10 percent participation in Containers Limited, Australia's largest canmaker. In addition, a new beer can plant in Guadalajara, Mexico began production in December 1975, and in Western Europe, five two-piece beverage can lines were brought on stream in 1974-75, with two more scheduled to start up in 1976. Soft-drink can usage, in particular, and the entire beverage can market in Europe had been growing at about 30 percent per year, and Continental was positioning itself to take advantage of the rapid growth.

Continental's international operations are conducted principally in Canada and European Common Market nations; in 1975, 26 percent of net sales from international operations was from Canada and 68 percent from Common Market nations. However, in 1975, the last of five lines for fish can manufacturing in the Soviet Far East was delivered and installed. A third installation was made in 1976 of five two-piece food can lines in the Moldavian Region. The order, which was placed by the U.S.S.R. in 1973, was worth a total of $30 million in equipment and technology.

In 1976, Continental Can Company moved to further capitalize on the growing global can markets, and Continental Forest Industries took a major step overseas. CCC increased its equity in Containers Limited of Australia to 14 percent with an investment of $7 million and acquired a 30 percent equity interest in the new Kuwait Metal Container Company. Continental Forest Industries invested $31 million for a 33 percent interest in Braskraft, a Brazilian forestry and linerboard venture.

In 1977, efforts to broaden Continental's geographical markets were unusually extensive. A joint venture agreement similar to that in Kuwait was concluded in Saudi Arabia, and others were underway in the Middle East, Africa, and the Asia/Pacific area. In South America, joint venture companies were formed in Bolivia, Columbia, and Venezuela for can manufacture, with plant construction scheduled to begin in early 1978. Brazil's canning plant, in which Continental has a 41 percent interest, completed a two-year modernization and expansion program to increase its competitive advantage. In Russia, White Cap signed an agreement to build and operate a baby food processing and packaging plant, while in Europe, Continental's wholly-owned subsidiary in Holland expanded one of its plants. In Montreal, Canada, a corrugated container plant began construction for expansion, and capacity at the Winnipeg beverage container plant was doubled.

Continental's level of capital expenditures in 1978 was higher than ever before in the company's history (exclusive of acquisitions). Continental Can Company continued to pursue its multi-local strategy in markets in the Middle East, Africa, and the Asia/Pacific basin, while Diversified Businesses sought to increase sales in Europe and South America. An agreement was finalized in mid-year with Saudi Arabia to enter into a joint venture to open the first can-making plant in that country. The plant was scheduled to begin producing beverage cans in the early months of 1979. A major development in the Asia/Pacific area was the doubling of Continental's interest in Containers Ltd. of Australia to 28.4 percent.

Four of six of Continental Diversified Businesses' manufacturing locations in Western Europe and Germany reached record sales, and the flexible packaging subsidiaries in Brazil and Colombia had strong sales and earnings.

In 1979, Continental entered the last phase of its ten-year expansion program, and the company refined its strategic position to take advantage of growing markets abroad. The only new market Continental Can Company entered in 1979 was in the United Kingdom, Western Europe's largest beer and soft drink market. Construction was started on a major can-making facility in Wrexham, Wales, and several conversions and expansions of already existing European facilities were completed. South American joint ventures in Venezuela and Bolivia started production, and another was scheduled for 1980 in Peru. Continental Can Saudi Arabia and Kuwait Metal Container Company became profitable during the year, and Containers Ltd. achieved record sales and earnings. Continental Forest Industries acquired a 49 percent interest in Fibro Tambor S.A. de C.V., Mexico's leading fibre drum company, and Continental Diversified Businesses emphasized improved performance in Europe.

By 1980, Continental had substantially achieved its goal of redirecting its emphasis on the maturing domestic can markets to the faster-growing international markets. Additional joint ventures in Venezuela, Hong Kong, and Korea for the manufacturing of two-piece beverage cans were started during 1980, but the bulk of Continental's investment had been accomplished. In the years 1971-75, Continental achieved an increase of 7.9 percent in international operations' contribution to earnings, from 22.4 percent to 30.3.[27] Then, in the years 1976-80, the company shifted the mix of foreign interest, focusing more heavily on the developing areas such as Hong Kong,

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[27]Refer to Table 1.

Korea, Saudi Arabia, and South America, rather than the slowly maturing market in Europe. In 1975, 93 percent of earnings from foreign investments was derived from Canada and the Common Market nations;[28] in 1980, only 88 percent was from Canada and Europe, with 12 percent from "other foreign sources.[29]

Early indications confirm the projections on which Continental's strategy was based. Volume in the U.S. packaging industry has been steadily dropping, with the exception of the plastic beverage bottle and plastic container business. The metal can industry in the United States today is experiencing substantial overcapacity, as expected, but the decline is being partially offset by gains in international markets. Continental appears to have positioned itself wisely by the implementation of its strategy of international expansion to cope with these shifts in demand for its products.

Technological Innovation

Since the 1930s, when Continental Can Company revolutionized beverage can-making, Continental has had the reputation as a leader in commercializing new technology. Technological innovation has been part of

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[28] The Continental Group, Inc. Form 10-K Report, 1975, p. 3.

[29] The Continental Group, Inc. Form 10-K Report, 1980, p. 2.

Continental's strategy for years, but it took on new new importance as part of the strategy for the 1970s when conditions became even more highly competitive as a result of excess supply.

Continental's three manfacturing business (Continental CAn, Diversified Business, and Forest Products) each maintain their own research departments to develop new products and machinery, to supply technical service to its plants and customers, and to improve existing product lines. About 650 professionals are engaged in this function, approximately 28 percent of whom are located outside the United States.[30] Total funds allocated to research and development activities averaged about $40 million per year throughout the decade.

Continental Can Company introduced a number of new products in the 1950s and 1960s when beverage canning in the U.S. was growing rapidly, and most of the new technological developments in the seventies were new uses or modifications of some of these products. Continental introduced a proprietary can-making process in 1967 called Conoweld, which has continued to be important to CCC's profits. Conoweld is a technology for welding side seams instead of the conventional method of soldering them, and it was originally introduced for manufacturing

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[13]Ibid. p. 13.

carbonated beverage cans. More than 25 percent of the company's food can capacity has also been converted to Conoweld, with further conversion planned in both food and aerosol cans.

The Can Company's technological advancements were also seen in the continuation of the conversion of beverage can lines from three-piece to two-piece technology and the introduction of "Perma-Ring." Perma-Ring is a nondetachable easy-opening end. In addition, a lighter weight two-piece aluminum can was commercially produced beginning in 1979.

Of the three operating groups, Continental Diversified Businesses spends a greater proportion of its sales dollar on research and development, reflecting the rapid pace of growth and technical advancement characteristic of its businesses. The Plastic Container Division became the first major manufacturer to commercialize the use of biaxially-oriented polypropylene, which produces bottles that are superior in clarity and strength and particularly desirable for packaging drugs, pharmaceuticals, and cosmetics.

The most important new product of the Plastic Container Division, and probably of the entire company, in the seventies was the polyester beverage bottle. After eight years of research and expenditures of over $20 million, the bottles were introduced on the market in 1977.

Continental Forest Industries' most significant products of the decade were the Weatherpak and Petropak fibre drums. Weatherpak was introduced in 1971 and was the first all-weather fibre container to compete with steel drums. In 1975, Petropak was produced, using new fibre and adhesive technologies, and it was the first fibre drum capable of holding and transporting heavy petroleum products.

Technical and design innovations such as these were responsible for maintaining Continental's leadership in the packaging markets in the seventies, just as they have been the key to Continental's reputation since the 1930s.

Modernization

Another important component of Continental's strategy was its program of facilities realignment and modernization. Continental's goal was to make all of its existing manufacturing plants as cost effective as possible in keeping Continental a least-cost producer.

A substantial part of this effort was directed to Continental Forest Industries. Each of the company's four large southern mills had been modernized by 1979. The largest of these projects was the modernization of the

Hopewell, Virginia, containerboard mill at a cost of $138 million--the largest single capital project in The Continental Group's 75-year history. Capital expenditures and investments in CFI totaled $496 million for the period 1974-78.[31]

In planning for these expenditures for facilities realignment and modernization, Continental established a reserve in 1972. Funds were committed when a need was identified by continuous evaluation of changes in market conditions and in Continental's facilities. By 1975, the reserve had been completely appropriated.[32]

Diversification

The most significant aspect of management's change in outlook was its commitment to diversification. International expansion, technological innovation, and modernization were all modifications of Continental's previously existing business operations, but strategic diversification was a mandate for definite change in the profile of Continental. Continental entered the 1970s as basically a North American packaging company heavily dependent on major can markets, and it emerged in 1980 as a very

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[31] The Continental Group, Inc. Annual Report, 1978, p. 11.

[32] The Continental Group, Inc. Annual Report, 1975, p. 21.

different company, largely as the result of two major acquisitions.

The first of Continental's major acquisitions in the 1970s took place in 1977 with Richmond Corporation. As previously discussed, Richmond's most important assets were The Life Company of Virginia, a 100-year-old company with a reputation for quality, and Lawyers Title Insurance Company, the third largest insurer of titles in America.

The insurance business is certainly far removed from the packaging business, but Continental had several good reasons for pursuing this particular acquisition. The primary reason was balance, which was considered a very necessary characteristic of the new future-oriented Continental. The acquisition of Richmond Corporation would provide better balance, simply by the unrelated nature of its business, but also in less obvious ways. For example, Continental had substantial business interests outside the United States where risks were often greater, while Richmond's assets and markets were primarily inside the United States. Also, the insurance business requires relatively small amounts of capital investment, and its cash-generating operations would be complementary to Continental's more capital-intensive operations, especially while Continental was committed to its program of extraordinarily heavy capital expenditures in the seventies.

After fifteen months of intense effort, Continental and Richmond entered into an Agreement of Merger on March 15, 1977. In late May, Continental's shareholders received their proxy statements, and on June 27, 1977, the stockholders of both companies voted their approval. The cost of the acquisition to Continental was $371.6 million, and based on total assets, Richmond represented a 16 percent addition to the company, in the most substantial step that Continental had taken to diversify.

In the Richmond acquisition, Continental had no prior connections with the company, but in the years preceeding its second major diversification move, Continental had business dealings with the company it later acquired. As previously mentioned, Continental Forest Industries is divided into several operating groups, one of which is the Land Resources Division. This division was formed in 1976 to manage certain land holdings and to analyze opportunities for alternative uses of its land. Continental became involved in oil and gas exploration through a wholly-owned subsidiary created for that purpose. Ocelot Oil Company was under the management of the Land Resources Division, and it first became associated with Florida Gas Company's subsidiary, Florida Gas

Exploration Company, when it entered into a joint venture with Florida Gas and others in an exploration project in Mississippi. Ocelot Oil also participated in oil and gas exploration ventures in Alabama, Louisiana, and Florida. As of December 31, 1978, Continental had a $10.3 million investment in a gas producing property venture in Florida and Mississippi, and it had entered other ventures for offshore exploration and had a $22.3 million investment for an average working interest of 7 percent in nine offshore oil tracts in the Gulf of Mexico.[33]

It was Florida Gas Company, whose subsidiary had been a partner with Ocelot Oil, that became Continental's second acquisition target in 1979. The next chapter is a description of Florida Gas Company, as it existed before the acquisition, and Chapter IV is a detailed description of the acquisition proceedings themselves.

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[33] The Continental Group, Inc. Form 10-K Report, 1979, p. 13.

CHAPTER III

FLORIDA GAS COMPANY

Prior to the acquisition by Continental Group, Florida Gas Company was an independent business entity, incorporated in Florida in 1957, whose principal operations were natural gas transmission, oil and gas exploration and development, hydrocarbons extraction, and real estate development. These activities were conducted by four wholly-owned Florida Gas subsidiaries: Florida Gas Transmission Company, Florida Gas Exploration Company, Florida Hydrocarbons Company, and Florida Land Company.

In addition, Florida Gas Company operated a distribution system that supplied natural gas to residential and commercial customers; however, the distribution operations were sold in July 1979. In March 1979, Florida Gas had announced its desire to concentrate on the transportation and exploration of oil and gas. The company was approached by Peoples Gas System, based in Tampa, Florida, when the new policy was announced, and in April, a tentative agreement was made.[1] The sale was finalized

[1]"Florida Gas Set to Sell Retail Gas Operations to Peoples Gas System," Wall Street Journal, 27 April 1979, p. 10.

on July 2, 1979, and the terms provided for Peoples Gas System to acquire the retail gas distribution system of Florida Gas Company, excluding related accounts receivable, for approximately $49 million in cash and the assumption of related liabilities.[2] The acquisition by Peoples Gas was unrelated to the subsequent acquisition by Continental, except that it served to expedite the process by eliminating certain regulatory approvals that the distribution operations were subject to.

Operating results for Florida Gas Company in 1978 were the best in the company's history. Consolidated net income for the company in 1978 was $26.2 million, the highest ever, even after deducting a $3.5 million aftertax non-recurring charge.[3] Operating revenues increased more than $50 million over 1977, and the annual dividend rate was increased $.20 to $1.64 a share, making 1978 the fourteenth consecutive year in which the dividend rate was increased. Figure 5 highlights several financial indicators, and Table 2 shows 1978 income by lines of business.

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[2]Florida Gas Company, "Proxy Statement for Special Meeting of Shareholders to Be Held on August 28, 1979," p. 70.

[3]This charge represented the accrual of Florida Gas Transmission's maximum potential liability of $7 million to certain muncipal generating customers in connection with a 1977 lawsuit settlement.

FIGURE 5

FLORIDA GAS 1978 FINANCIAL
HIGHLIGHTS

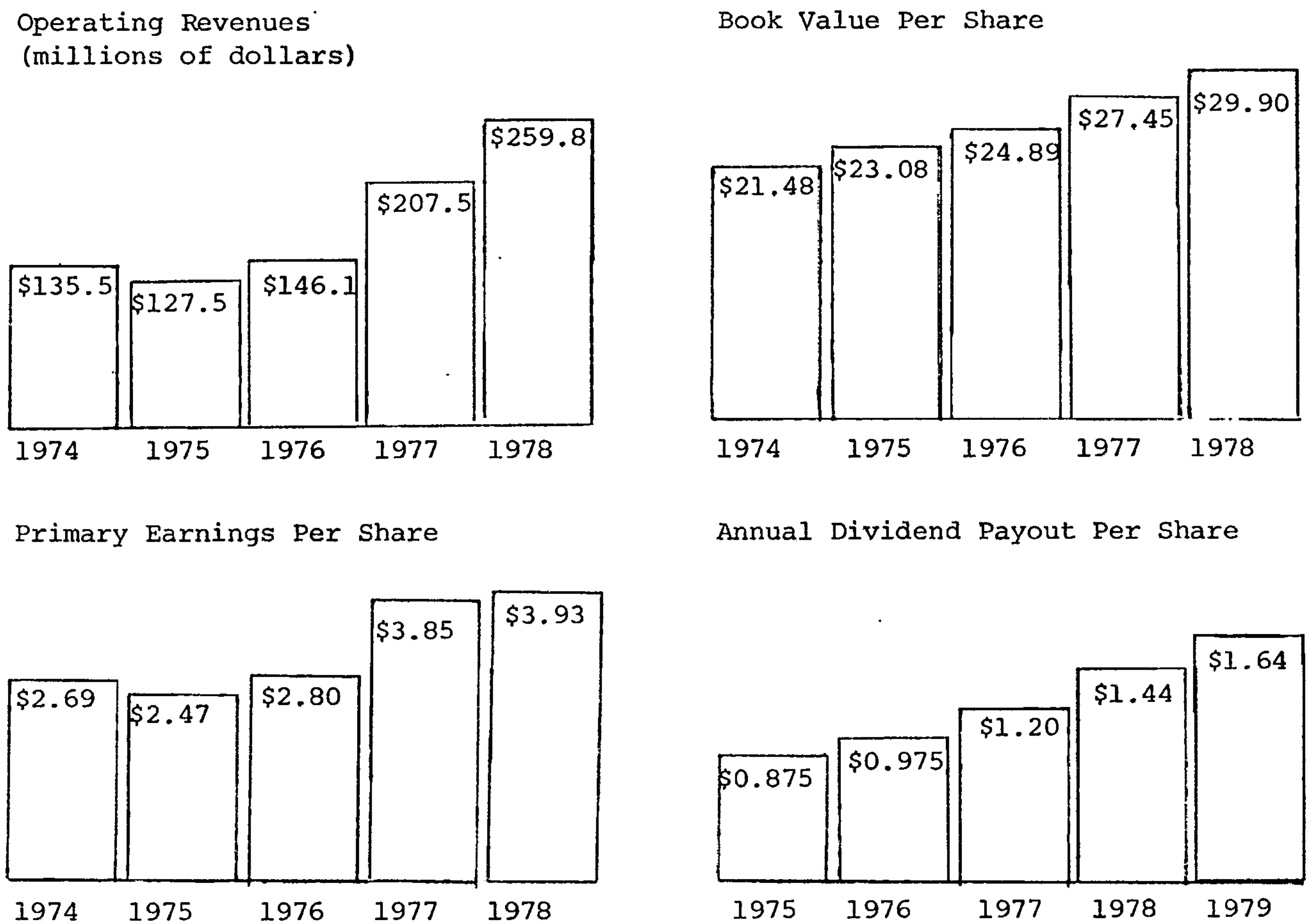

TABLE 2

FLORIDA GAS COMPANY

INCOME BY LINES OF BUSINESS
(thousands)

	1978	1977	1976	1975	1974
Gas transmission	$45,201*	$45,600	$38,404	$37,184	$37,026
Gas distribution	6,483	6,678	4,940	3,715	4,403
Oil and gas exploration	7,178	6,528	3,808	1,316	(396)
Hydrocarbons extraction	1,279	2,836	2,834	5,860	12,428
Real Estate	1,272	(367)	(555)	(930)	(1,408)
Other	687	(26)	(85)	(141)	(605)
Intercompany Eliminations	79	28	27	(2)	(47)
	$62,179	$61,277	$49,373	$47,002	$51,401

*After deducting a $7 million non-recurring charge

SOURCE: Florida Gas Company Annual Report, 1978, p. 2.

Each of the four Florida Gas Company subsidiaries is examined in more detail in the following section, and each is viewed as the business existed in the early months of 1979.

Florida Gas Transmission Company

Florida Gas Transmission Company--the natural gas pipeline subsidiary--purchases, transports, and sells natural gas. It operates out of the home office in Winter Park, Florida, and an office in Houston, Texas. The company owns a transmission system extending from the Rio Grande Valley in South Texas to a point twenty miles south of Miami, Florida, consisting of 4,276 miles of pipeline. The system receives gas at approximately 98 points in Texas, Louisiana, Alabama, and Florida, and in 1978, it delivered an average of 721,300 MMBtu's per day to consumers at approximately 173 delivery points, mostly in Florida.[4] Florida Gas Transmission is the sole supplier of natural gas to peninsular Florida.

Revenues are derived principally from three sources of the Transmission Company's operations: sale of gas to customers who resell the gas ("sales for resale"), sales of gas directly to the ultimate consumers ("direct sales"), and transportation of gas for others ("transportation service"). In 1978, the contribution to Transmission's revenues from each of these principal sources was 40 percent from sales for resale, 30 percent from direct sales, and 23 percent from transportation service.

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[4] Florida Gas Company Annual Report, 1978, p. 6.

Of the 1978 revenues derived from sales for resale, 68 percent were from sales made to thirty-five non-affiliated gas distributors who resold such gas to their own industrial, commercial, and residential customers. The remaining 32 percent were attributable to sales to the company's retail gas distribution system.[5]

Of Florida Gas Transmission Company's 1978 direct sales revenues, 92 percent were from thirty-eight non-affiliated industrial customers. The remaining 8 percent of revenues were from sales to Florida Hydrocarbons Company.

The major portion of transportation service revenues in 1978 were derived from three contracts with Florida Power Corporation and Florida Power & Light Company. These contracts provided for the transportation of gas purchased in Louisiana and Texas to Florida.

Under the Natural Gas Act of 1938, Florida Gas Transmission Company, as a "natural gas company," is subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). The FERC regulates the rates that Florida Gas Transmission can charge for sales for resale and transportation service, but the rates for direct sales are left to negotiations between the company and its

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[5]Although this system was sold on July 2, 1979, all existing contracts were assumed by Peoples Gas System.

customers. The Natural Energy Act, passed in 1978, modified the Natural Gas Act of 1938 and favorably affected the outlook for pipeline system operators. The statute provided generally for the price deregulation of most newly discovered natural gas beginning in 1985, with specified price increases in the interim. The act also placed intrastate gas under Federal price controls for the first time, allowing interstate pipeline systems to compete on an equal basis. Florida Gas Transmission Company interpreted the newly established price parity between the interstate and intrastate markets as giving the company the opportunity "to aggressively compete for new onshore gas supplies for the first time since the early 1970s."[6]

Florida Gas Transmission Company applied to the FERC in 1974 for approval to transfer an 890-mile section of its existing natural gas pipeline from Baton Rouge, Louisiana to Fort Lauderdale, Florida for the purpose of converting this system into a common-carrier petroleum products pipeline. If approved, the existing system would be acquired from Florida Gas Transmission by a newly-formed subsidiary, Transgulf Pipeline Company. In addition to the cost of acquiring the existing system,

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[6]Florida Gas Company Annual Report, 1978, p. 6.

conversion costs were estimated to be about $140 million.[7] In January of 1977, an Administrative Law Judge ruled that the project was in the public interest and approved the project. The issue was expected to come before the entire Commission in March 1979.[8]

In another project related to the transmission company, Florida Gas Company began a study in 1978 to determine the feasibility of a coal slurry pipeline from coal fields in the eastern United States to electric generating plants in Georgia and Florida. As presently planned, the project would include approximately 1,500 miles of pipeline and be capable of delivering up to 40 million tons of coal per year, making it the largest coal slurry pipeline proposed as of 1978.[9] If completed, the pipeline would provide significant economic and environmental advantages.

See Figure 6 for the geographic layout of the proposed coal slurry pipeline, in addition to the Transgulf

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[7]Ibid, p. 15

[8]No final decision has been reached on this issue, although in December 1980, another ruling was made by an Administrative Law Judge of the FERC that granted approval of the project, under certain conditions. However, exceptions have been filed with the entire Commission, and no projection has been made as to the outcome.

[9]Florida Gas Company Annual Report, 1978, p. 15.

pipeline pending approval and the natural gas pipeline currently in operation.

Florida Gas Exploration Company

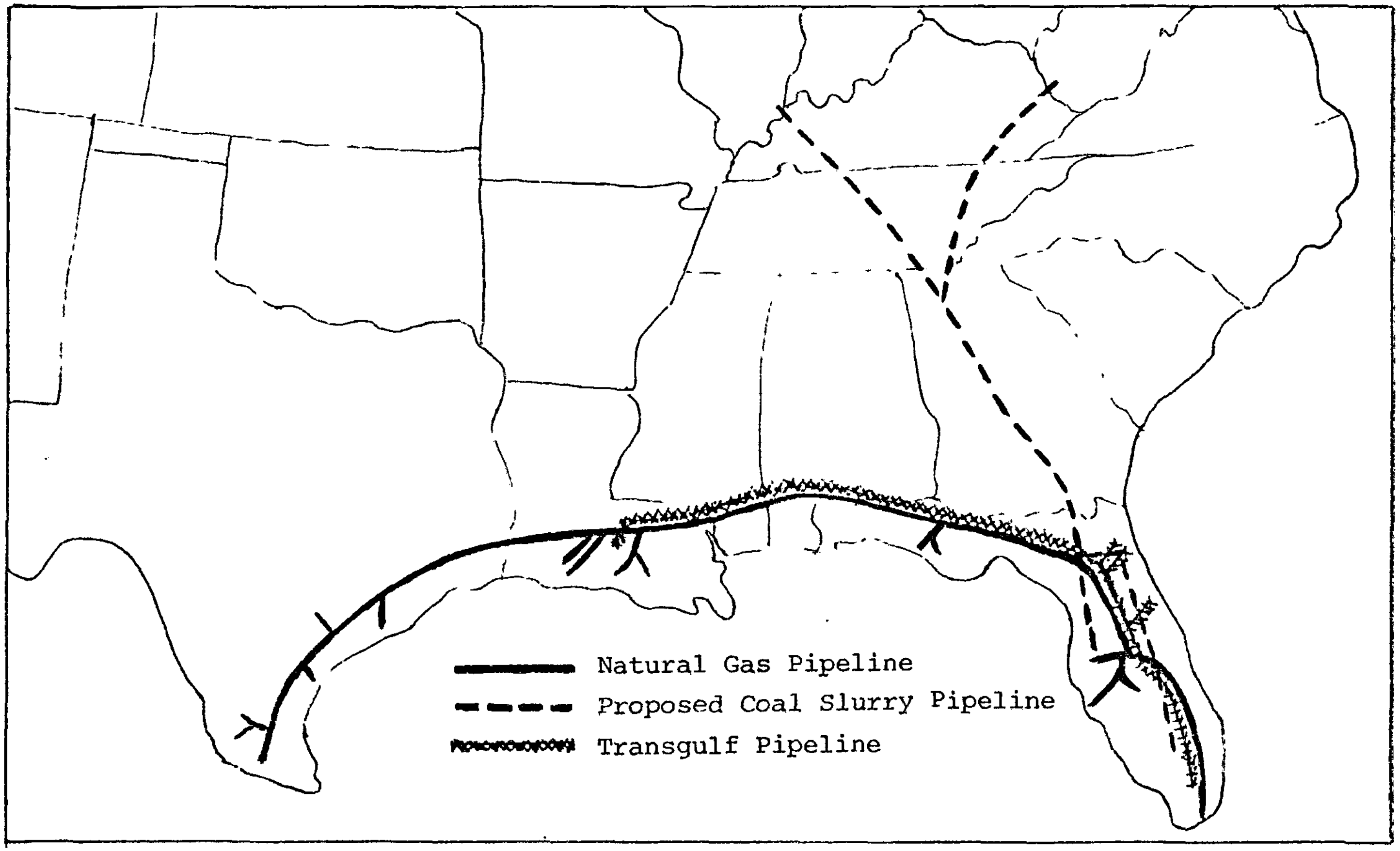
Florida Gas Exploration Company is engaged in oil and gas exploration in most exploration provinces in the continental United States and has been consistently increasing its reserves and production. The company participates in both onshore and offshore exploration efforts and operates from its headquarters in Houston, Texas and from division offices in New Orleans, Louisiana; Jackson, Mississippi; Midland, Texas; and Denver, Colorado. The Denver office was opened in 1978 to expand exploration efforts to include the Rocky Mountain states.

Florida Gas Exploration's onshore efforts in 1978 were concentrated in Texas, Louisiana, Mississippi, Alabama, Florida, New Mexico, and Oklahoma. The company often conducts onshore activities as joint ventures, acting as operator in approximately 50 percent of the onshore wells in which it has an interest. Participation in offshore exploration was in state and Federal waters off the coast of Texas and Louisiana, usually in joint venture efforts with Shell Oil Company acting as operator.

Expanding operations made 1978 another record year for the company, with revenues from oil and gas production up \$5.3 million from the previous year to \$20.8 billion

FIGURE 6

FLORIDA GAS PIPELINE SYSTEMS



SOURCE: FLORIDA GAS COMPANY ANNUAL REPORT, 1978, p. 15.

and income before interest and taxes up $700,000 to $7.2 million compared with $6.5 million in 1977. Capital expenditures were increased 72% over 1977, totaling $23.4 million. Net capital investment in exploration and development at year-end 1978 was $66.1 million.[10]

The company expected 1979 to be an even better year for the growth of Florida Gas Company's exploration activities. Approximately $57 million was budgeted for Florida Gas Exploration's capital expenditures in 1979, an increase of 244 percent. Included in this estimate was $15 million that was committed in a December 1978 offshore lease sale. In addition, Florida Gas Exploration planned to participate with Shell Oil in bidding for two offshore leases in the Gulf of Mexico which could substantially increase the 1979 budget. The exploration activities of the company had been receiving an increasingly larger proportion of Florida Gas Company's total capital budget, and 1979 was a definite continuation of the trend, with 62% budgeted for Florida Gas Exploration.

DeGolyer & MacNaughton, independent petroleum engineers, estimated Florida Gas Exploration's proved reserves as of December 31, 1978 at 2,895,000 barrels of

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[10] Ibid., p. 8.

oil and 62 billion cubic feet of natural gas.[11] Using the standard method adopted by the Securities and Exchange Commission, future net revenues from these reserves were approximately $123 million. Discounting the estimated future net revenues at 10 percent, Florida Gas Exploration's proved reserves had a present value of approximately $78.8 million as of December 31, 1978. The SEC method is very conservative, however, because no consideration is given to probable increases in oil and gas prices unless provided for by contract.

Florida Hydrocarbons Company

Florida Hydrocarbons Company owns and operates a natural gas liquids extraction plant at Brooker, Florida. The plant is connected to Florida Gas Transmission's main pipeline, which entitles Florida Hydrocarbons to extract liquid hydrocarbons from the pipeline's natural gas stream and then redeliver the gas into the transmission system. The hydrocarbons are further processed to produce propane, butane, and natural gasoline.

In 1978, income from Florida Hydrocarbons before interest and taxes was $1.3 million and revenues were

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[11]"Proved" reserves are those that have been proved to a high degree of certainty by analysis of the producing history of a reservoir and/or by analysis of adequate geologic and engineering data.

$9.5 million, which were about the same as for the previous year (after taking into account non-recurring sales from inventory of approximately $1 million that occurred in 1977).[12] Declining production at the plant in recent years was attributed to a reduction in the volume of liquid products in the gas stream as producers began to construct extraction plants in the field. The company was hopeful that the higher natural gas prices allowed by the Natural Gas Policy Act of 1978 would make it less attractive for producers to install field extraction plants and consequently increase the extractable hydrocarbons available to Florida Hydrocarbons.

Florida Land Company

The company's real estate operations at December 31, 1978 consisted of approximately 7,800 acres located in central Florida, which represent a net investment of approximately $48.4 million. During 1978, revenues increased to $9.6 million from $4.8 million in 1977.[13] The real estate operations made a positive contribution to earnings for the first time since 1973, in the amount of $1.3 million. The growth of central Florida and the corresponding demand for residential and commercial real

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[12] Ibid. p. 12.

[13] Ibid.

estate were expected to continue, and Florida Land Company considered its properties to be well positioned to capitalize on the anticipated growth. Revenues for 1979 were projected to be increased substantially over 1978, and 1978 revenues had doubled those of 1977.

Proposed Name Change for Florida Gas Company

A name change was proposed for Florida Gas Company in the early part of 1979, to be approved by shareholders at the annual meeting in May. Selby W. Sullivan, Chairman of the Board and President of Florida Gas Company, stated the reason for the proposed change:

> As the company has expanded its geographical scope and has diversified into the transportation and exploration of energy generally, the name "Florida Gas" no longer accurately depicts the character or future direction of the company.[14]

The new corporate name was to be "Trenex Corporation," Trenex being an acronym for transportation, energy, and exploration. The new name was intended to signify the future direction of the company and the beginning of a new era of corporate growth.

At the shareholders' meeting in May, the name change was approved, to take effect in July.[15] Florida

[14] Ibid, p. 5.

[15] "Florida Gas Company," Oil and Gas Journal, 14 May 1979, p. 90.

Gas Company did change its name in the summer of 1979, but it was not to Trenex, and it was not in July; Florida Gas Company changed its name to Continental Resources Company in August 1979. The next chapter describes the events of March-August 1979 and explains how Florida Gas Company became a subsidiary of The Continental Group, Inc.

CHAPTER VI

THE ACQUISITION

The first rumors of a possible acquisition of Florida Gas Company reached the business community in March 1979. In an article in _The Wall Street Journal_ on March 23,[1] Florida Gas Company said it had been negotiating with two companies interested in acquiring it. Selby W. Sullivan, President and C.E.O. of Florida Gas, declined to disclose the identity of the two firms, except to say that the stock of both was traded on the New York Stock Exchange. Sullivan said that a tentative price of $50/share had been set to determine the level of interest before proceeding with the negotiations. The latest closing price for Florida Gas Company's common stock prior to this announcement was $28.625/share on Wednesday, March 21, 1979.[2]

The investment community responded to this initial announcement with heavy trading, and in trading on the Monday following _The Wall Street Journal_ article that

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[1] "Florida Gas Talks With Two Suitors It Won't Identify," _Wall Street Journal_, 23 March 1979, p. 10.

[2] The common stock of Florida Gas Company was listed on the New York Stock Exchange under the ticker symbol FLG.

appeared on Friday, Florida Gas Company Common Stock closed at $36.75/share, up $8.125 on the volume of 166,300 shares. On March 27, the day following this activity on the NYSE, Florida Gas Company announced that its two "suitors" were examining the company's books to see if the $50/share was justified as a tentative price. It reported that no other terms of sale had been discussed nor had it received any offers.[3]

Agreement in Principle with Continental Group

On May 22, 1979, the Wall Street Journal reported that a tentative agreement had been reached by Florida Gas Company and The Continental Group, Inc. for the acquisition of Florida Gas.[4] The preliminary announcement provided for Continental Group to acquire Florida Gas Company in a transaction valued at $340 million, subject to certain conditions which included the execution of a definitive agreement, the approval of both concerns' directors and Florida Gas Shareholders, and the necessary regulatory approvals.

Under the proposed terms, Florida Gas shareholders would receive a package with a value of approximately $50

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[3]"Florida Gas Says Books Studied by Two Suitors," Wall Street Journal, 27 March 1979, p. 6.

[4]"Packaging Firm Plans to Acquire Florida Gas Co," Wall Street Journal, 22 May 1979, p. 4

in return for each share owned. This package would include 7/10 share of a new series of Continental Group preferred stock per share of Florida Gas common stock, plus $12.50 cash and part of a debenture. Continental said the preferred stock and debenture could trade at greater than or less than the designated value. At the time of the announcement, each 7/10 share of preferred stock was approximately equal to $17.50, the debenture $20.00, and cash in the amount of $12.50, making a total package of $50. Continental also said the series of preferred stock and the debentures would be listed on the NYSE. In addition, each shareholder of the preferred stock would receive a quarterly dividend at an annual rate of $2.25 per share. The stock would be cumulative and nonconvertible, with an involuntary liquidation preference of $25/share. The proposed acquisition would be accounted for as a taxable, "purchase" transaction.

It was announced on June 8, 1979 that the terms of the agreement had been slightly altered.[5] The total value of the transaction was unchanged, but Continental Group had elected to increase the cash portion of the $50 package to $32.50/share from $12.50 in lieu of issuing a debenture valued at $20. The acquiring company also

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[5]"Continental Group's Terms for Acquisition of Florida Gas Altered," Wall Street Journal, 8 June 1979, p. 35.

modified the form of the new series of the preferred stock by reducing the fraction of a share to be exchanged per share of Florida Gas common stock. It was reduced by one-half from 7/10, and the annual dividend rate and involuntary liquidation preference were doubled. As a result, each share of Florida Gas common stock would be exchanged for $32.50 in cash and 0.35 share of a new series of Continental cumulative preferred stock which would be entitled to an annual dividend of $4.50 and would have an involuntary liquidation preference of $50. Continental also announced that a special meeting of its directors had been called to present the merger agreement for approval.

Approval of Directors

On July 12, 1979, The Continental Group, Inc. and Florida Gas Company executed an Agreement of Merger, which had been unanimously approved by a vote of the Boards of Directors of both companies.[6] The Agreement of Merger did not require the approval of the shareholders of Continental, but it was still subject to the approval of Florida Gas Company shareholders. The terms of the $340 million agreement were as previously negotiated.

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[6]Florida Gas Company, "Proxy Statement for Special Meeting of Shareholders to Be Held on August 28, 1979," p. 7.

In approving the Agreement of Merger, the Board of Directors of the Continental Group stated its belief that the proposed merger represented a favorable opportunity for it to expand and diversify its businesses in energy-related fields through the acquisition of a well established and capably managed enterprise.[7]

The management of Florida Gas Company was of prime importance to Continental because the company did not believe in the standard management practice of purging or neutralizing top executives of newly acquired companies.[8] Robert Hatfield, Continental's Chairman, had taken the attitude that acquisitions were an important source of capable executives, in addition to a source of business opportunities. In the Richmond acquisition in 1977, the senior executives were kept in office, and Hatfield planned to follow the same strategy with Florida Gas. Mr. Hatfield said:

> Before we made the bid for Florida Gas, we had a pretty good estimate of his (Selby Sullivan - President and CEO of Florida Gas) capacity - which we judge as superior. Furthermore, Selby had gathered around himself a very capable

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[7]Ibid., p. 6.

[8]Thomas C. Hayes, "Recruiting Via Acquisitions," New York Times, 30 November, 1979, p. D2.

group of managers.[9]

As stated in the Proxy Statement under "Management of the Company after the Merger,"[10] it had been agreed that Selby Sullivan would become a director and Executive Vice President of Continental. In addition, it was agreed that fifteen senior executives would have employment arrangements with Continental upon the effective date of the merger.

The Board of Directors of Florida Gas Company was equally enthusiastic in approving the Agreement of Merger. In recommending it to the shareholders for their approval, the Board stated several reasons for its belief that the merger would benefit all shareholders.[11] First, the merger would give shareholders the opportunity to exchange their shares for Continental Series C Preference Stock and cash at a substantial premium over the market price of Florida Gas Common Stock prevailing prior to the announcement of a merger. Second, the dividend rate on the Continental stock, in addition to the income attainable from

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[9] Ibid.

[10] Florida Gas Company, "Proxy Statement," p. 14.

[11] Ibid., p. 6-7.

investment of the cash received, would be substantially greater than the rate currently being paid on Florida Gas Common Stock. Third, the Board of Directors anticipated benefits to Florida Gas because it would have access to greater financial resources as part of a larger, more diversified enterprise.

Approval of Shareholders

A special meeting of the shareholders of Florida Gas Company was called on August 28, 1979, to consider and take action on the matter of the approval and adoption of an Agreement and Plan of Merger, providing for the transaction whereby Florida Gas Company would become a subsidiary of The Continental Group, Inc.

On August 28, 1979, Continental Group announced the completion of its proposed acquisition of Florida Gas Company for $350 million in cash and preferred stock after Florida Gas shareholders approved the merger.[12] The terms of the agreement were those previously announced, but the overall value of the transaction was $10 million greater because Continental Group had decided to redeem the 72,000 shares of Florida Gas Preferred Stock, in addition to the

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[12] "Continental Group Inc. Buys Florida Gas Co. for $350 Million Total," Wall Street Journal, 29 August, 1979, p. 34.

6,653,605 shares of Florida Gas Company Stock, that were outstanding as of the record date of July 23, 1979.

It was also announced that Florida Gas Company would be renamed Continental Resources Company operate as a subsidiary of The Continental Group, Inc. The subsidiaries of Florida Gas Company would retain their present names, except for Florida Gas Exploration Company, whose name was to be changed to Florida Exploration Company. The operations of the acquired company would remain essentially the same, with no major organizational changes planned.

With the successful acquisition bid for Florida Gas Company, Continental Group had accomplished a major step in its strategy of diversification, and together with Continental's 1.5 million acres and the mineral rights attached to them, the company had created an impressive base of natural resources to build upon. The extensive timberlands were now viewed not only as resources for the forest products business, but also as potential drilling sites for oil and gas exploration and development. Mr. Hatfield stated that the company had never really attempted to develop the resources under the timberlands, but the acquisition of Florida Gas could make that possible.[13]

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[13]"Continental Group Inc. Sees '79 Improvements After Diversification," Wall Street Journal, 22 November, 1979, p. 5.

In a concluding comment on the Florida Gas acquisition, Robert S. Hatfield said:

> The Continental Group's decision to become more actively involved in this growing company in a growing industry will result in several synergies. With this acquisition, the Continental Group enters a new economic sector, the entire energy field, not just natural gas.[14]

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[14] "Continental Group Takes Florida Gas in a Merger," Chemical Marketing Reporter, 10 September 1979, p. 5.

CHAPTER V

POST-ACQUISITION ANALYSIS

Through the issuance of 2.4 million shares of a new \$4.50 Cumulative Preference Stock, Series C, with an aggregate fair value of \$117 million and cash of \$234 million, Continental Group consummated the merger with Florida Gas on August 28, 1979, the effective date of the merger,[1] and Florida Gas Company officially became Continental Resources Company. The only organizational changes that were made were minor; certain previously owned oil and gas investments of Continental Group were included in Continental Resources, and non-energy-related investments of the former Florida Gas Company were included with other investments and advances for reporting purposes.[2]

In the four months beginning September 1, 1979, Continental Resources had revenues of \$141.2 million and contributed operating earnings of \$20.4 million to the Continental Group.[3]

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[1] The Continental Group, Inc. Annual Report, 1979, p. 43.

[2] These non-energy-related investments refer to Florida Land Company.

[3] The Continental Group Inc. Annual Report, 1980, p. 18.

Revenues for the full year in 1979 were $349.6 million, compared with $521.4 million in 1980. Operating earnings in 1980 also increased substantially, totaling $77 million and contributing 20 percent to the total company's operating earnings.[4]

The improvements in 1980 operations were made possible by substantial growth in production and sales in all segments of Continental Resources Company. Florida Gas Transmission delivered an average of 733,000 million Btu's per day, an amount approximating full capacity of the natural gas pipeline. Florida Hydrocarbons had a 28 percent improvement over 1979, extracting 51 million gallons of propane, butane, and natural gasoline from the pipeline gas stream, as compared to 40 million in 1979.

The most dramatic increases in 1980 were attributable to the oil and gas exploration activities. Both oil and gas production increased 35 percent over 1979 levels, and proved reserves at year-end 1980 were 4.5 million barrels of oil and 114.5 billion cubic feet of gas. This compares to 3.4 million barrels of oil and 95.5 billion cubic feet of gas at year-end 1979. In a news release

[4]Ibid.

dated April 10, 1981,[5] the company's reserves were expected to produce future net revenues having a present value of $430 million when discounted at 10 percent per year.[6] These revenues are compared with a net investment in those properties of $161 million.

Continental foresees a major portion of its energy activities to be in oil and gas exploration and development. Capital expenditures in exploration and development are planned for 1981-85 in the amount of $800 million, $150 of which is scheduled for 1981.

Thus, it appears that Continental Resources Company has quickly become an integral part of The Continental Group, contributing significantly to the company's total earnings and attracting a very substantial part of the capital budget. The financial data of 1980, the first full year of Continental Resources Company's contribution, indicates that Continental Group made an excellent investment, especially taking into account the news release of April 10, 1981. The effect of the acquisition on the employees and

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[5]The Continental Group, "News," 10 April 1981.

[6]This estimate was made assuming an annual rate of increase in natural gas prices of 12.4 percent and an annual rate of 10.1 percent for oil prices. Future costs were escalated at a rate averaging 7 percent per year. Using the very conservative SEC method, the proved reserves have a present value of $254 million.

shareholders of the former Florida Gas Company warrants further review.

Implications for Florida Gas Company Employees and Shareholders

As agreed prior to the consummation of the merger, Selby Sullivan, CEO and President of Florida Gas, and fifteen of his top executives were assured of the continuation of their employment. Selby Sullivan was made a member of the Executive Office as Executive Vice President and Chief Financial and Administrative Officer, in addition to becoming a director. Kenneth L. Lay, a former Vice President of Florida Gas Company, was named as President of Continental Resources Company, and the other officers and executives retained their former positions. Compensation agreements were assumed by Continental under existing terms as were all outstanding stock options and stock appreciation rights.

In addition, employees with an overriding royalty interest, held in the Florida Gas Exploration Company Employees' Trust, were assigned those interests if the employee remained in the employ of Continental for one year subsequent to the effective date of the merger.

In terms of absolute economic terms, it does not appear that the employees of Florida Gas Company suffered any disadvantage. However, in less tangible terms, operating as a subsidiary of a company the size of Continental could be considered an advantage or a disadvantage. Some employees might regard it as an opportunity for greater growth and for personal advancement, whereas others might see it as imposing a more centralized authority structure and allowing less control of the direction of growth, while increasing competition for personal advancement. This is an issue that depends on individual circumstances and is not subject to judgment.

A final issue that has implications for both executives with stock benefits and shareholders is the value of the Continental Series C Preference Stock that was issued to replace Florida Gas Common Stock. In designing the exchange package of cash and Series C stock, based upon the opinion of Blyth Eastman Dillon & Company, it was judged that each share of Series C stock would have been worth at least $50 as of May 18, 1979, the last business day prior to the announcement of the agreement in principal.[7] The combined estimated value that was exchanged for each share of Florida Gas Common Stock was calculated as follows:

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[7]Florida Gas Company, "Proxy Statement," p. 22.

	Value
.35 share of Continental Series C Preference Stock	$17.50
Cash	$32.50
Total	$50.00

In addition, an annual dividend of $4.50 per share was to be paid quarterly. By comparison, the annual dividend payout per share on Florida Gas stock was $1.64 in 1979.

With these facts in mind, Table 3 presents appropriate shareowner information.

TABLE 3

CONTINENTAL SERIES C PREFERENCE STOCK

Period	High	Low
1979		
3rd Quarter	$49	43 1/4
4th Quarter	44 3/4	39 3/8
1980		
1st Quarter	40 3/4	32 1/2
2nd Quarter	42 5/8	32 3/4
3rd Quarter	41 5/8	36
4th Quarter	36 1/4	32 3/4

Note: All dividends on preference stocks have been paid when due.

Although the price of the stock has been trading well below $50, the shareholder who purchased Florida Gas Company stock before the announcement of acquisition negotiations has still profited significantly from the acquisition agreement. The market price history of Florida Gas Company stock is shown in Table 4.

TABLE 4

FLORIDA GAS COMPANY COMMON STOCK

Period	High	Low
1976		
1st Quarter	$18	$13 3/4
2nd Quarter	16 1/4	13 5/8
3rd Quarter	17 7/8	15 5/8
4th Quarter	21 1/8	16
1977		
1st Quarter	24	20
2nd Quarter	26	22 1/2
3rd Quarter	26	23 3/8
4th Quarter	27 1/2	23
1978		
1st Quarter	26 3/8	23 1/4
2nd Quarter	30 1/4	25 5/8

(Continued)

Table 4, continued

Period	High	Low
1978		
3rd Quarter	27 7/8	26 1/8
4th Quarter	26 3/4	21 1/2
1979		
1st Quarter	38 3/4	24 1/2
2nd Quarter	47	34 5/8

Note: On March 21, 1979, the last day of trading before the announcement that Florida Gas was negotiating with two potential purchasers, the closing price was $28 5/8.

In spite of the less than outstanding performance of the Continental Series C Preference Stock, the future looks promising for Continental investors. Mr. Hatfield interpreted "Wall Street's coolness," with respect to Continental's common stock also, as "concern for short-term rewards," a benefit that Continental has not been able or willing to provide.[8] In fact, from 1971-80, which was Mr. Hatfield's era, Continental's common stock did not top $38 a share, but Continental's stagnant behavior on Wall

[8]Thomas C. Hayes, "Recruiting Via Acquisitions," New York Times, 30 November 1979, p. D4.

Street did not cause undue concern. It was the price Continental realized it had to pay to implement its strategy to position itself for the eighties. As Mr. Hatfield said: "We've been playing the business for the long haul."[9]

A Final Look at the New Continental

> We're achieving a dynamics balance. You won't find us looking at other fields at this point. We have achieved the objective we set out to achieve in the early 1970's.[10]

These were the words of Robert Hatfield, the principal architect of Continental's decade-long plan to create a well-balanced diversified corporation, subsequent to the acquisition of Florida Gas Company. He felt that the strategy was finally in place, after $2.5 billion in investments over the nine years that he had been chairman and chief executive officer. The price that Continental had paid was lower profits because of heavy capital expenditures and stagnant stock prices over the period, but Mr. Hatfield believed the payoff would be worth it.

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[9]Ibid.

[10]"Continental Group Inc. Sees '79 Improvements After Diversification," Wall Street Journal, 22 November 1979, p. 5.

Investors had shown little interest until 1979, when analysts began to notice the changes in the company's profile and the future potential of the New Continental. As one analyst from Morgan, Stanley & Company stated, "They have a beautiful strategy in place."[11] Expectations for the 1980s because of the successful implementation of the strategy are high, and Value Line predicted an average annual total return of more than 30 percent.[12] Another analyst considered Continental's stock to now be "a total return vehicle that can make money for people in both the short- and the long-haul."[13]

The acquisition of Florida Gas Company played a major role in positioning Continental for the eighties. In addition to the diversification that it provided, the energy-related businesses of Continental are focal points of the company's expectations of growth and profits in the future. The high rate of real earnings growth is

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[11]Thomas C. Hayes, "Recruiting Via Acquisitions," New York Times, 30 November 1979, p. D4.

[12]The Value Line Investment Survey, 20 February 1981, p. 7.

[13]Thomas C. Hayes, "Recruiting Via Acquisitions," New York Times, 30 November 1979, p. D4.

especially important in a business environment that is plagued by high inflation. Continental hopes that the increasing real value of oil and gas reserves will act as an inflationary hedge for the company. Continental's belief in the promising potential of Continental Resources Company is evidenced by the financial commitment it has made to capital expenditures.

Having accomplished his goals in changing the profile of the company from a concentrated packaging concern to a well diversified corporation with interests in packaging, forest products, insurance, and energy, Robert S. Hatfield resigned on January 2, 1981. S. Bruce Smart, Jr., the former President of Continental Group, took Mr. Hatfield's place as Chairman of the Board and Chief Executive Officer, but in the 1981 Annual Report, Mr. Smart recognized the New Continental as Robert Hatfield's legacy.

The New Continental is well positioned for the 1980s, as a vastly different company from Continental Can Company of 1970. The acquisition of Florida Gas Company was the last major step in the implementation of Continental's strategy of the seventies, a decade whose events shaped a promising future for the New Continental.

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